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Foreign Economic Trends and Their Implications for the United States

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PEOPLE'S REPUBLIC OF CHINA

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PEOPLE'S REPUBLIC OF CHINA: KEY ECONOMIC INDICATORS (1)
(Money values in billions of dollars except where noted)

Exchange rates
1982: US$1/RMB 1.89
1983: US$1/RMB 1.98

	1982	1983	% CHANGE 82-83
INCOME, PRODUCTION, INVESTMENT			
Population, million, mid-year	1008.1	1020.2	1.2
National Income	224.7	236.0	10.0 (2)
Gross Domestic Prod (GDP)(3)	261.9	274.9	10.0 (2)
Per Capita GDP (mid-year)(US$)	250.4	257.2	7.7 (2)
Per Capita Income, Rural (US$)	143.0	156.5	14.7 (2)
Per Capita Income, Urban (US$)	265.0	265.7	6.4 (2)
GVIO&& (Billion 1980 RMB)	557.7	616.3	10.5
GVAO&&& (Billion 1980 RMB)	262.9	287.9	9.5
Total Investment in Fixed Assets	44.7	48.1	12.7 (2)
Urban Cost-of-Living Index (1980/100)	104.6	106.7	2.0
INDUSTRIAL PRODUCTION			
Crude Oil, million metric tons (mmt)	102.1	106.1	3.9
Coal (mmt)	666.0	715.0	7.4
Natural Gas, billion cu. mtrs	11.9	12.2	2.3
Electric Power, billion KW hrs	327.7	351.4	7.2
Rolled Steel (mmt)	29.0	30.7	5.9
Cement (mmt)	95.2	108.3	13.7
Chemical Fertilizer (mmt)	12.8	13.8	7.9
Cloth, billion meters	15.3	14.9	-3.1
Chemical Fibers (thousand metric tons)	517.0	541.0	4.6
Bicycles, million	24.2	27.6	14.0
Radios, million	17.2	20.0	16.0
Household Washing Machines, million	2.5	3.7	44.5
Household Refrigerators thousand	99.9	188.5	88.7
Electric Fans, million	9.2	10.1	10.4
Cameras, thousand	742.3	926.0	24.8

AGRICULTURAL PRODUCTION (in millions of metric tons)

Grain	353.4	387.3	9.2
Rice	161.2	168.9	4.5
Wheat	68.4	81.4	18.9
Corn	60.3	66.3	9.9
Tubers	26.7	29.3	8.1
Soybeans	9.0	9.8	8.1
Cotton	3.6	4.6	28.9
Oilseeds	11.8	10.6	-10.7
Hogs, million head, year-end	300.8	298.5	-0.7
Large Animals, million head, year-end	101.1	103.5	2.3
Tobacco	2.2	1.4	-36.4

FOREIGN TRADE (4)

Total Trade (US$ billion)	40.3	43.4	7.7
Trade Balance (US$ billion)	4.7	0.8	
Exports F.O.B. (US$ billion)	22.5	22.1	1.8
U.S. Share (US$ billion)	2.3	2.2	
Imports, C.I.F. (US$ billion)	17.8	21.3	19.7
U.S. Share (US$ billion)	2.9	2.1	
U.S. SHARE OF CHINESE IMPORTS IN PERCENT	16.3	9.9	

& Change in exchange rates accounts for apparent drop in NI, GDP and percapita figures.

&& Gross Value of Industrial Output (turnover, not value-added)

&&& Gross Value of Agricultural Output (Turnover, not value-added)

(1) 1982 and 1983 Statistics based on State Statistical Bureau, Statistical Yearbook 1983, Statistical Communique, 1983.

(2) Growth is nominal and based on current RMB figures.

(3) Estimated by inflating National Income by 16.5 percent to account for depreciation, non-material services, and rent.

(4) Chinese estimates and U.S. Government data.

SUMMARY:

China's current economic reform began in 1979 and continues to move forward. China's reformers have brought agriculture, light industry, and heavy industry into basic balance and are now promoting greater efficiency throughout the economy. The current industrial rectification drive is now focussing on improving managerial skills and transforming technically backward, inefficient industries. In agriculture, China is in the process of dismantling the commune structure and is developing a new system of rural management more appropriate to China's household contracting system. The private sector is also making a modest comeback in urban areas with over two million private businessmen playing an increasing role in the retail trade and service sectors.

China's reform program still faces stiff problems--some of which are the creation of the reform itself. Price subsidies--reported by chinese economists to exceed 40 percent of state budget expenditures--are crowding out the government's capital spending programs, and adapting the wildy successful rural responsibility system to China's cities is proving difficult. The introduction of more local government authority and greater enterprise autonomy has also contributed to waste and duplication. The reformers have only made minimal gains in solving key problems of transportation bottlenecks and energy shortages. And China has yet to tackle the thorny problem of price reform.

U.S.-China trade has fallen from the 1981 record volume of US$ 5.5 billion, reaching only US$ 4.3 billion in 1983. The drop in trade is in part a production of an overall decline in agricultural imports from the United States. U.S. exports of capital goods, however, promise to move than fill the gap created by the decline in agricultural exports. In addition, China's current emphasis on acquiring advanced technology from the U.S. and the recent liberalization of U.S. export regulations should also help bilateral trade recover in 1984. Finally, China has also recently issued a new set of investment regulations designed to encourage joint venture activity. However, the lack of a U.S.-China Bilateral Investment Treaty will likely continue to hold back U.S. investment in China. End Summary.

PART A--CURRENT ECONOMIC SITUATION AND TRENDS

--China's Economic Reform Program Continues Rolls On

The dominant theme in the Chinese economy since 1979 has been economic readjustment--a movement away from the heavy industry-oriented economic model that dominated China's economic policy-making for almost 30 years. China's current readjustment policy has attempted to create a structural balance between agriculture, light industry, and heavy industry by increasing consumption at the expense of investment and emphasizing the development of labor-intensive, light industrial production. China's economic reformers believe that relatively small investments in light industry can translate into rapid production increases and meet rising consumer demand, create new employment, and earn foreign exchange for the technical transformation of the industrial sector. In addition, increased foreign exchange earnings can also purchase grain overseas and allow China to shift domestic acreage from grain to those cash and industrial crops important in fueling development of China's light industry. Readjustment has the additional benefit of lightening the burden on China's limited energy resources strained in the past by the energy-wasteful heavy industry sector.

In pursuit of this basic program, China's reform-minded economic leaders have introduced a host of reforms and experiments to enliven the overall economy, including:

- --reform of industrial management,
- --replacement of budget allocations with bank loans,
- --substitution of taxes for profit remittances to the state,
- --use of bonus incentives in industry,
- --participation of private enterprise in the economy,
- --reintroduction of free markets in the cities, and
- --liberalization of the distribution system.

Far-reaching reforms have also hit the countryside. China has begun to dismantle the commune system and to redistribute the land to households on a contract basis. Rural fairs--the traditional form of free markets in the countryside--have been resurrected, and supply and marketing cooperatives are being reformed in order to increase availability of consumer goods in rural areas. These efforts have expanded the individual decision-making power of peasants, giving them a freer hand in marketing over-quota production and providing them with expanded opportunities to purchase heretofore unavailable consumer goods.

The combination of these reforms and the emphasis on readjustment helped bring agriculture, light industry, and heavy industry into a rough balance by the end of 1983. During 1979-1981, China's readjustment policy succeeded in holding heavy industry growth to almost nothing. In fact, in one year--1981--heavy industry output actually showed a 4.7-percent negative growth rate. Industrial production during this same period shot up at an average annual rate of about 14 percent. Agriculture grew at a slower rate, averaging slightly less than 5.6 percent average annual growth during the same three-year period.

In 1983, agricultural output value experienced another record year, topping off at 10.5-percent growth rate. Heavy industry at the same time shot up 12.4-percent. Light industrial output, however, lagged behind slightly, growing by 8.7 percent. This imbalance in growth--with heavy industry in the lead over light industry--has been rectified in 1984 restoring the stucture of China's overall readjustment program. In the first six months of 1984. Light industry has surged forward, recording an 11.5-percent growth rate over the same period in 1983. Heavy industry has also moved forward and grown by 11.7-percent for the first half of 1984 compared to the corresponding period last year.

China's early economic reform efforts were heavily inspired by senior economic theorist and Politburo Standing Committee member, Chen Yun. Premier Zhao Ziyang, however, has been the leader in the actual implementation of China's current economic reform program, assisted by Vice Premier Tian Jiyun, Economic Commission Chief Zhang Jingfu, and Finance Minister Wang Bingqian. All four have been strong advocates of chopping back heavy industry growth and improving economic efficiency by implementing reforms that rely heavily on market forces. In addition, most other key officials in Beijing appear to support the essentials of the Premier's reform program. Disagreements do take place over the scope and pace of reforms, however, especially among mid-level leaders in the provinces.

--Technical Transforation: China's Key to Industrial Modernization--

During the Cultural Revolution period from 1966 to 1976, politics was in command; the stress--even in economic work--was on "red" over "expert." Consequently, the current reform effort is short of qualified technicians to run China's factories. According to one Chinese survey, for example, less than three percent of the workforce currently manning China's large-scale and medium-scale enterprises is technically qualified. Few plant managers in fact

have adequate management training and expertise. According to one prominent Chinese economist, Ma Hong, only about one third of China's current factory managers are qualified to run their enterprises. China's reformers also discovered in 1979 that the industrial sector was riddled with many other problems, including low labor productivity, antiquated equipment, lack of cost accounting practices, deficit financing, and insufficient incentives for quality production.

The earliest reforms in 1979 and 1980 were aimed at cutting back on the blind pursuit of production without attention to real costs, overheads, and market demands. In addition, the reformers also attempted to link production more directly with pay, introducing bonus systems in almost all industries. The reformers also began experimenting with using central tax policy to encourage economic efficiency in industry and do away with the old program of profit remittances to the state. In June 1983, this tax reform program was introduced nationwide in all factories and enterprises and the program will undergo expansion in October of this year.

The current industrial rectification program--which began in 1982--is a full-blown attempt after four years of experimentation to put technically qualified personnel in charge of enterprises, develop economic responsibility systems closely linked to increased profitability, attack deficits and over-subsidization, and promote quality in manufactured goods. In recent months China's reformers have fired some enterprise managers and unit party secretaries who have mismanaged their factories. In a few instances whole factories have been closed down or merged with other units in cases where there was no hope of making the factory a profitable operation.

China's current five-year plan through 1985 calls for the completion of 279 priority projects. Economic reformers, however, are concerned that the overall development effort will fall short if at the same time attention is not given to upgrading China's 400,000 other enterprises. China's reformers point out that over the past 30 years, China has increased its gross value of industrial output (GVIO) almost exclusively through aggregate, quantitative expansion. By contrast, only 20 percent of China's GVIO gains has come through technical progress. This is about the ratio, the reformers note, that was enjoyed by most industrial nations at the turn of this century. By the 1970's these same countries depended on technical innovation and progress for 60-80 percent of their growth. In recent speech, Premier Zhao Ziyang noted that the world is entering a fourth major technical and industiral revolution--an information revolution. If China does not transform its industries, he claims, China will fall even farther behind the developed world.

Imports of high technology equipment are critical to the overall technical transformation issue. In order to develop a more rational program of technical imports, China earlier this year embarked on an experimental program in Tianjin and Shanghai, designating these two cities as special zones authorized to import technology to renovate and upgrade small--and medium-sized factories. The majority of the 3000 technical renovation projects planned through 1985 will probably go to these two cities.

--China Dismantles the Commune System--

In terms of recent events in the countryside, one of the most interesting aspects of reform concerns China's efforts to dismantle the commune system. In September 1982, the 12th Congress of the Chinese Communist Party approved the dismantling of the communes and the reintroduction of the township and village structure which existed in the early 1950's. This decision was in recognition of the massive changes which have taken place in the countryside since the introduction of responsibility systems at the production team and household level in 1979. By October 1983, nearly 20 percent of China's communes had been replaced with the township system. The implementation of the program, however, has been uneven with some areas, such as Tianjin, having completed the reform while other areas have been slow to introduce the program. Current plans call for replacement of communes with township governments by the end of 1984.

The new structure provides a framework to develop further the household responsibility system, or as it is popularly known in North China, "dabaogan." In 1982 the party and government reached a consensus in favor of the broad-scale implementation of the household responsibility system throughout the country. Under the system, land is still owned collectively but is contracted to individual households that pay a fixed amount of their production to the collective and agree to meet government procurement targets for grain, cotton, or other key agricultural commodities.

After a major campaign in the late fall of 1982 and early spring of 1983, the household responsibility system reached practically all of China's agricultural villages and grassland communities. The household has now replaced the production team as the basic accounting unit in the countryside. Land contracts now may last fifteen years or longer and land is allowed to be transferred from one family to another. The government and party apparatus is also currently developing a system to link the various households economically with the village. In a large number of places, especially in North China, the old village cooperative of the 1950's is re-emerging as the most likely candidate to become China's rural development model and center.

According to some Chinese agricultural experts, as much as 70 percent of China's rural labor force is surplus. China's reformers are, therefore, interested in developing rural industries and expanding the commercial network in the countryside in order to better use this surplus labor force.

Over the past two years, China has popularized the creation of so-called specialized and key households to engage in rural sideline production. In some model areas as many as one half of a village's households are involved in these activities. Party reformers hope that these households will eventually leave the land. Farmers that remain behind will have larger tracts of land that can be farmed more economically. In some areas in east and north China, this is already happening with the creation of specialized grain production households contracting for up to five hectares of land.

--Private Sector Plays a Larger--But Still Modest--Role in Urban Commerce--

Another major reform since 1979 has been the reintroduction of private-sector participation in the urban marketplace. During the Cultural Revolution era, radical economists and dogmatic politicians wreaked havoc with urban commerce. Retail distribution was reorganized into an orderly pyramid-shaped network with the factory at the apex and a limited number of retail distributors at the bottom. One price, one shop, one management style became the norm and the government slashed back on the number of retail outlets by more than 90 percent in major urban centers such as Beijing, Tianjin and Shanghai. The result was an ossified commercial system in which the marketplace played no role and consumer interests were given little consideration. Long lines at most shops were common and rationing was standard operating procedure.

As a result, China's private commercial sector almost totally disappeared by 1978, and in a population of almost one billion, only 150 thousand persons were engaged in private trade. Since the current reform drive began in 1979, however, the private sector has made a modest rebound. By the end of 1982, almost 1.5 million people or about 1.3 percent of the urban work force was engaged in private-sector activities. Of the some 6 million new workers that joined the urban work force in 1982, 300 thousand or about 5 percent entered the private sector. In 1983, expansion of the urban, private sector was even more rapid, reaching more than two million workers by the end of the year.

About one half of China's new private sector is engaged in retail sales. Another 15-20 percent works in the restaurant and food service area, and an additional 15-20 percent is in repair services. Private-sector activities in processing and manufacturing remain a very small portion of the whole. It is important to note also that the private sector is still overshadowed by the massive state commercial system and that the government tends to support collective commercial activities over private-sector development. But private-sector business reportedly accounts now for around 10 percent of all retail sales. The state sector has in fact relinquished its role to private vendors in the sale of certain retail food items--such as fruit--where it has difficulty making profits because of government pricing policy. This has led to some urban inflation, but has also meant that the urban consumer is able to purchase more and better quality food items.

--China's Reform Effort Generates New Problems--

The success of the reform effort has generated new problems as well as uncovered hidden problems in China's economic system. From the reformist point of view, the most serious problem in 1984 is adapting the successes of rural reform to China's urban economy. Reformers are urging reduction of China's troublesome subsidies burden; reform of the antiquated wage system; improved efficiency in management; and above all, price reform.

One area where the reform program itself has created significant new headaches has been in the expansion of local government and enterprise autonomy. Although yielding good results in many cases, the reform has also contributed to substantial duplicative investments and waste. The Chinese media continue to slam provincial planners and officials who, in recent years while pursuing profits, have expanded too quickly production of key consumer goods in short supply--the so-called "three essentials" (bicycles, watches, and radios). Now China produces more of these items, but their quality is often shoddy and inferior and consequently they remain unwanted by consumers. Many enterprise managers have also taken advantage of the liberalization of policy to benefit their individual factories. The Chinese media, for example, continually launch attacks on factories that indiscriminately issue bonuses without regard for increased production, undermining the basic goal of the reform itself. Recently the state council passed a complicated tax on excess bonus payments in order to bring this problem under control.

--Transportation Bottlenecks and Energy Shortages Remain Important Obstacles to Long-Term Growth--

China's transportation network--especially its rail system and port installations--is woefully inadequate. China did manage to increase the moment of goods by rail in 1983 by 8.6 percent, but the country's rail network remains one of China's worst bottlenecks. In spite of efforts to improve the situation by double-tracking and electrifying rail lines, however, most of the major rail upgrading projects are not due for completion until 1990. This may be a major impediment to sustaining growth in the short term.

The current energy situation is not as critical as it was in 1982. Last year, energy production rose 6.7 percent. Within the energy sector, petroleum production rose by about 4 percent in spite of real production problems over the past four years at China's Daqing and North China oilfields. Coal production has also continued to rise, recording a 7.4-percent rate of growth in 1983. Energy production still lags behind China's overall industrial growth of almost 12 percent so far this year, however, creating acute energy shortages in many areas of the country. Industries in many parts of China are operating at significantly less than capacity due to critical energy shortages.

The greatest problem still facing China's economic reformers is reform of China's irrational pricing system. Prices today in China reflect neither true costs of production nor relative scarcities in the economy. Prices of agricultural products and industrial raw materials remain undervalued, while prices of finished products of industry tend to be overvalued. China's irrational price structure is the legacy of a policy adopted in the 1950's to spur industrial development.

Problems generated by the Chinese pricing system are perhaps most obvious in the energy sector. Partly because China has abundant coal resources and partly because the leadership has deliberately pursued a policy of subsidizing energy consumption, the government has significantly undervalued the price of coal. As a result, the price of coal today is so low that two thirds of China's mining districts are operating at a loss. On the international market, the price of three tons of coal roughly equals one ton of wheat. In China, one ton of wheat commands the same price as 15 tons of coal. Similarly, on the international market, the price of a ton of coal is equivalent to that of two thousand kilowatt hours of electricity. But in China, the same amount of electricity is priced at the same level as 11 tons of coal. China's energy subsidy for industry has indeed spurred production, but it has also led to waste and squandering of precious energy resources.

China's reformers understand the problems created by their irrational pricing system. But price readjustments will also create thorny political problems and China's leadership may not have the political will to carry through on the necessary reforms or to challenge vested industrial interests. Removing or reducing energy subsidies by raising energy prices will raise production costs, reduce profits, and increase inflationary pressures. The party leadership is especially sensitive to these possible outcomes and is reluctant to adopt any radical measures that would create political conflict between reformers and industrial managers--and defenders of their interests in Beijing--or generate serious worker unrest.

As an example of the leadership's nervousness over potential urban unrest, when purchase prices of farm products were raised significantly in 1979 and 1980, the government went out of its way to prevent the new price hikes from being passed on to the urban consumer. Instead, the government fully subsidized the 1979 price hikes and, after getting cold feet, passed out a special subsidy--still in effect today--of five yuan per month to every urban worker, basically negating the impact of the 1980 price hikes. China's reformers claim that they will begin to tackle the overall price issue in 1985, but they will need more courage to implement the program more effectively than demonstrated in the recent past.

PART B--IMPLICATIONS FOR THE UNITED STATES

--U.S. -CHINA TRADE ON THE REBOUND--

U.S.-China bilateral trade will increase from a four-year low of U.S. $4.3 billion in 1983 to a total ranging from $4.6 billion to $5.9 billion. We expect virtually all of the increase to be concentrated in U.S. exports, as China's exports stagnate. The wide range in our low and high estimates reflects uncertainty about China's imports of high technology equipment, and its intention to meet its grain purchase commitment.

United States exports to China are projected to rebound from a four-year low of $2.1 billion in 1983 to a total ranging from $2.6 billion to $3.7 billion--a 15- to 70- percent increase.

China's exports to the United States are projected to decline slightly from or remain at the 1983 level of $2.2 billion. Chinese exports will range from $2.0 billion to $2.3 billion.

In 1984, the composition of U.S. exports will continue to be dominated by a shift from agricultural to non-agricultural products. In 1983, agriculture, excluding forest products, accounted for 33 percent of total U.S. exports to China, a drop from 51 percent in 1982. In 1984, we estimate that agriculture will account for one third of total U.S. exports to China. Capital goods, by contrast, will account for up to 40 percent of total U.S. exports, up from 9 percent in 1982 and 36 percent in 1983.

Textiles will continue to dominate China's exports to the United States. In 1983, textiles accounted for 50 percent of China's total exports to the United States, up from 36 percent in 1982. We estimate that textiles will again account for over 50 percent of China's total exports in 1984. The United States will return to a trade surplus in 1984, ranging from $550 million to $1.4 billion. In 1983, the United States experienced a bilateral trade deficit--$71 million--the first since 1977, and only the fourth since trade resumed in 1972.

The most encouraging element in the trade picture is the increasing diversification of U.S. exports, creating the potential for solid growth in the future. The most worrisome element is the increasing dominance of textile products in China's exports to the United States which could ultimtely affect U.S. exports and cause severe trade friction.

Projections on U.S.-China trade require an important caveat. The acutal numbers will be heavily influenced by the climate of U.S.-China political relations. If bilateral relations continue to improve, U.S. businessmen may find many new doors opening to them. The converse can obviously pertain, as well.

--China's Positive Foreign Reserves Picture and Liberalized U.S. Technology Export Regulations Should Boost Bilateral Trade in 1984--

By mid-1984, estimates of China's foreign exchange reserves, exclusive of gold holdings, were stated by Bank of China officials to stand at $19 billion. The effect is to render China an even more credit worthy customer to international lending institutions. Nevertheless, most transactions still are conducted on a cost basis.

The Chinese drive to effect a technological transformation of their industrial base, coupled with the progressing U.S. export control liberalization that was begun in the spring of 1983, could result in as much as $2 billion worth of high technology contracts being signed by the end of 1984, as estimated by the U.S. Department of Commerce.

Major purchases in seismic data recording and processing equipment and services, as well as computers for other uses, should account for a large proportion of that figure, with major transportation and telecommunications equipment providing significant amounts.

--China Now Has an Investment Code--

Perhaps the most important news in recent months for U.S. business interests was the release in mid-September, 1983, of the regulations for the implementation of the joint venture law that China passed in 1979. The new implementing regulations fill in the bare skeleton of the law and codify Chinese contracting practices and policies developed since the law was first published. The new regulations address many of the more vexing issues confronting foreign firms, clarifying the formation process for a joint venture and the approval hierachy. As such, the regulations represent significant positive steps towards the continued improvement in conditions encouraging foreign investment and its contribution to China's four modernizations.

The publication of the new regulations comes at a time when U.S. business interests are taking a more serious look at investing in China. Although the number of U.S. joint ventures in China still lags behind the number of Hong Kong investments, American investment in equity joint ventures constitutes 34 percent of the total foreign investment in China, or over $100 million.

This investment amount excludes U.S. petroleum interests. Thirteen U.S. oil firms have already signed all-risk contracts for exploration and production in the South China Sea. The total drilling commitments of U.S. firms alone are estimasted at more than US$ 300 million. In addition, activities in the petroleum sector are generating considerable sales of equipment and technology for seismic work, oil services, exploration, and production. By mid-1984, there have been two discoveries (one oil, one gas) that are likely to prove commercially viable, and the successful companies are conducting additional drilling to prove the reserves and are making the necessary studies to determine the feasibility of entering into the production phase.

--Getting into the China Market--

In addition to the new regulations fleshing out China's joint venture law, over the past five years China has begun to develop a whole host of other regulations in support of its open-door policy of trade and commerce with the West. Starting essentially from a

"zero base" in 1979, China has now created legislation covering company registration, labor management, special economic zones, foreign enterprise taxation, exchange control, offshore petroleum exploration, marine environment protection, trademarks and a patent law. Several other laws or implementing regulations are under development, reported to include further liberalization of the foreign investment guidelines, and to cover foreign contracts. The Sino-U.S. Bilateral Investment Tready, when finalized, will include provisions covering: 1) treatment of investment, 2) compensation in the event of expropriation, 3) dispute settlement, and 4) transfer (i.e., exchange, convertability, and repatriation).

In its search for a balance between centralization and decentralization in foreign trade, China created the Ministry of Foreign Economic Relations and Trade (MOFERT) in 1982 with the aim of consolidating four ministries and providing greater central leadership in foreign investment and trade practices. The new Ministry has introduced a number of administrative devices--such as licensing and export duties--to achieve effective control at the center.

By mid-1983, the proliferation of new "import-export" organizations which sprouted up in 1979-1981 had been slowed or reversed, and MOFERT has asserted national responsibility for foreign trade policy. Its Technology Import-Export Department now plays the key role in the approval of major projects involving foreign technology (licensing, joint ventures), in decisions concerning the trading of commodities and goods (import/export department), and in establishing national priorities (in close collaboration with the State Planning Commission). Nevertheless, the trading pattern is complicated somewhat by the fact that a number of ministries--including the ministries of electronic industries, metallurgical industries, aviation and coal--remain active in foreign trade. In addition, several state corporations have been established--such as the China State Shipbuilding Corporation, the China Automotive Corporation, and the China National Petrochemical Corporation--reporting directly to the State Council, and who are to operate as profit and loss centers.

At the local level, the trading picture remains complicated because Guangdong, Fujian, Liaoning and Hubei provinces, the municipalities of Beijing, Shanghai, Tianjin, Hainan Island, and special economic zones in Guangdong and Fujian have the authority to approve locally, without reference to the center, contracts up to specified monetary amounts. In the case of Tianjin and Shanghai, assuming no requirement for resources from the central government, projects up to US$ 30 million can be approved.

To these special zones has been added the opening of 14 coastal cities to increase foreign investment and local autonomy. The attempt has been to create and atmosphere conducive to the entry of foreign capital and technology into the 14 cities, in an attempt to spur both the flow of capital and the development of the cities themselves. The 14 cities are: Dalian, Qinhuangdao, Tianjin, Nantong, Shanghai, Yantai, Qingdao, Lianyungang, Ningbo, Wenzhou, Fuzhou, Guangzhou, Zhanjiang and Beihai. Following the opening of the 14 cities, local officials have been competing with each other for ways in which to attract potential investors. The exact power to approve projects or development plans by individual cities is still being defined, and will become more structured as investment levels grow. However, in general, the cities are likely to have the authority to approve projects up to US$ 10 million (except where additional authority has been granted such as to Tianjin and Shanghai).

Given this complexity and the evolving nature of the central and local trade responsibilities, it is essential for U.S. firms to determine the national priority of any particular major project and to establish relationships with a number of key organizations in order to increase the probability of success.

China is open to a variety of business arrangements including licensing, equity joint ventures, contractual joint ventures, co-production, and direct purchases (generally cash transactions). Although there is considerably less emphasis on compensation trade or buy-back requirements for high-priority projects included in the state plan, these types of arrangements are also quite common. In this regard, the priority sectors for China's development continue to be energy (petroleum, coal, and power), electronics and telecommunications, and transportation, as well as the technical transformation of China's existing 400 thousand state enterprises.

In particular, opportunities for U.S. firms exist in the following sectors:

-- Petroleum equipment and services (offshore and onshore exploration and development)
-- Coal equipment and engineering services (especially open-pit mines and slurry pipeline development)
-- Aircraft and helicopters
-- Computers and computer software
-- Telecommunications equipment
-- Thermal and hydropower plant equipment, services and transmission lines

U.S. firms are in a strong position to participate in the international bidding for several World Bank-sponsored projects including the further development of the Daqing, Zhongyuan and Karamay oilfields. The U.S. Trade and Development Program (TDP) is active in China and is involved in a number of projects which have already led to a number of feasibility study grants for US firms. This program remains extremely active, with six definitional study teams already scheduled to visit China prior to the end of 1984.

In January, 1984. President Reagan and Premier Zhao Ziyang signed the Industrial and Technological Cooperation Accord, creating the framework for Sino-US cooperation in specific industrial sectors.

By July 1984, three Work Programs have been established, for electronics/telecommunication, metallurgical industries, and aerospace, which call for project identification and exchanges of delegations to promote cooperation and contracts.

Many U.S. firms, both old and new to the market, participate in technical seminar programs or exhibitions in China sponsored by the U.S. Department of Commerce or by private organizations in order to make themselves and their products known to a greater number of potential customers. Newcomers to trade in China may also wish to seek an invitation to the Guangzhou (Canton) Export Commodities Trade Fair (held April 15 to May 5 and October 15 to November 5 every year).

U.S. Deprtment of Commerce will sponsor the following trade promotion events in and with China in 1984/1985:

August 1984	Geological and Geophysical Exhibition--Beijing
September 1984	Animal Husbandry Technical Sales Seminar--Delegation I
October 1984	Animal Husbandry Technical Sales Seminar--Delegation II
October 1984	Chinese Legal Delegation to the United States
November 1984	Interpetro Exhibition--Shanghai
November 1984	Electronics Executive Trade Mission
November 1984	China Comm 84--International Telecommunications, Computers and Electronics Exhibition and Conference--Beijing
December 1984	OPIC Investment Mission
January 1985	Automation Asia--Shanghai/Guangzhou
March 1985	Metallurgy Executive Trade Mission
April 1985	National Machine Tool Builders Exhibition--Shanghai

The U.S. Government, the American Embassy's Agricultural, Commercial and Economic Sections in Beijing, and the Consults in Shanghai, Guangzhou and Shenyang can assist U.S. businessmen in China. The Foreign Commercial Service of the Department of Commerce, established in China in late 1981, now has offices in Beijing, Shanghai, Guangzhou and Shenyang. In addition, the National Council for U.S.-China Trade, a membership organization, maintains and office in Beijing, as do several cooperative organizations of the U.S. Department of Agriculture.